



## INTRODUCTION

Section 32.2000(a)(4) of the rules establishes the expense limit that carriers must use to determine the appropriate accounting treatment for acquisitions of certain support assets. Items that cost over \$500 must be capitalized, amortized and retired. Items that cost under the \$500 limit are simply expensed; this avoids the transactions and record keeping associated with capitalization.

The USTA Petition, which proposes to amend Section 32.2000(a)(4) to increase the expense limit to \$2,000, was supported by eight parties and opposed by one party.

In the Notice, the Commission proposes to raise the expense limit, but only to \$750. The Notice seeks comment on: (i) the proposed increase of the expense limit to \$750; (ii) whether carriers should be allowed to amortize the undepreciated, embedded assets; and (iii) the appropriate time period for the amortization of the embedded assets.

## DISCUSSION

**1. In support of the USTA Petition, GTE urges the Commission to increase the expense limit to \$2,000 rather than the proposed \$750 increase.**

Supporting the USTA Petition, GTE urges the FCC to raise the current expense limit to \$2,000. This change would substantially reduce the administrative costs disproportionately associated with a relatively small percentage of carrier investment. Adopting USTA's proposal and raising the expense limit to \$2000 would mean that the vast majority of carriers will, net of implementation costs, benefit from the rule change. Not only will the \$2000 expense limit improve carriers' efficiency, but carriers'

customers will also share in this benefit<sup>2</sup>. As the USTA Petition (at 4) says, "Raising the expense limit to \$2000 will benefit both carriers and customers."

GTE does not support the proposal of the Notice to increase this limit to \$750. An increase in the expense limit by only \$250 will have little beneficial effect over and above the cost of implementation. A substantial portion of the implementation costs will be incurred regardless of the amount of the increase in the expense limit. Thus, by only allowing an increase of \$250, the Commission will be extending the "pay back" point when the benefit of the increase will equal the cost of the implementation<sup>3</sup>. While implementation costs will vary by carrier, if the Commission chooses to limit the increase to \$250, it should grant a blanket waiver for carriers where implementation costs cannot be justified by the limited benefits proceeding from the change.

The Commission's willingness to increase the expense limit to only \$750 stands in sharp contrast to the current expense limit set by the Cost Accounting Standards Board for government contractors. This governmental accounting standard body raised

---

<sup>2</sup> GTE, has made substantial progress in reducing its costs related to the administration of support assets. Data systems were standardized across GTE's operating areas and where appropriate many functions were centralized or streamlined. Raising the expense limit to \$2000 would compliment this ongoing effort and result in additional cost savings.

<sup>3</sup> Had the \$750 expense limit been in place for 1994, only 1% of the investment capitalized by GTE would have been expensed. It is clear that the Commission's proposal offers little practical relief to carriers. On the other hand, had USTA's proposal of \$2000 been in place for 1994, approximately 8% of the investment capitalized would have been expensed. The considerable reduction in tagged items, offered by USTA's proposal would produce meaningful reductions in carriers' administrative costs.

the expense limitation to \$1000 in 1980 and to \$1500 in 1989. In fact, the FCC itself in 1988, when increasing its figure to \$500, commented:

[T]here is evidence to suggest that our increase in 1982 was very conservative even for that time. Cost Accounting Standards imposed on defense contractors have had an expense limit of \$1000 since 1980....<sup>4</sup>

Similarly, the Canadian Radio-television and Telecommunications Commission increased its capitalization minimum to \$1500 as early as 1978.<sup>5</sup> Since these increases could not have been justified solely on the basis of inflation adjustment, factors other than inflation must have been considered. Increasing the current expense limit imposed on carriers from \$500 to \$2000 is eminently reasonable when compared to what nonregulated companies and governmental contractors use as a similar benchmark<sup>6</sup>.

**2. Competition for local exchange services requires that this Issue receive a fresh look.**

As the USTA Petition points out (at 3-4), the regulatory environment is far different today than when the current level was adopted in 1988. Today's marketplace not only has many more providers offering a wide variety of competing new services, but even more important is the change in state and federal regulatory policies in force.

---

<sup>4</sup> Revision to Amend Part 31, CC Docket No. 87-135, Report and Order, FCC 88-220 (July 22, 1988) at paragraph 10.

<sup>5</sup> TELECOM. DECISION CRTC 78-1 (January 13, 1978).

<sup>6</sup> If the methodology used by the Commission at paragraph 9 were applied to the 1989 governmental expense limit of \$1500, the current adjusted governmental expense limit would be approximately \$1900 in 1994 dollars. If the adjustment were increased to account for some amount of future inflation, the result would be greater than the \$2000 expense limit proposed by USTA.

While a limited portion of the local exchange market faced competition in the 1980s, today virtually every aspect of local exchange service is or will shortly be competitive. Legislative and regulatory initiatives at both state and federal levels have opened all aspects of the network to competition. The level of competition for local exchange services will continue to increase in dramatic fashion.

The Commission must address this issue in the new light of competition rather than assumptions of an earlier time. Merely adjusting the previous expense limit for the effects of inflation was inadequate even in 1988; today it is indefensible. The \$2000 expense limit recommended by USTA is much closer to what nonregulated companies, government contractors and Canadian telephone companies employ, and is justified in light of the telecommunications marketplace of the 1990s.

**3. As the majority of LEC services are now subject to price cap regulation, the concern over revenue increases associated with a \$2,000 expense limit is misplaced.**

Today, the majority of telecommunications services are currently, or soon will be, under price cap regulation. The portion of revenues still under rate of return regulation continues to decline as more and more state regulators are adopting regulatory models or frameworks that break from traditional regulation. Given this reality, any increase in expense levels associated with the accounting change proposed by USTA would have little impact on carriers revenues. Moreover, these increases in expense levels will be offset by decreased depreciation expenses in future periods and by ongoing reduction in associated administrative expenses.

Increasing the expense limit to \$2000 will not result in significant revenue increases for the carriers in view of its modest impact and the effects of price cap

regulation. In any case, this rule change would not affect the level of expenditures in the associated accounts, only the timing of the expense recognition -- while it will permit carriers to make real reductions in current expense levels associated with the administration of these assets. Thus, over the period of time the asset would have been depreciated, under the USTA proposal, the total costs of depreciation and administration will be less.

**4. The Commission should adopt USTA's proposal for amortizing the embedded net book value over the assets remaining lives.**

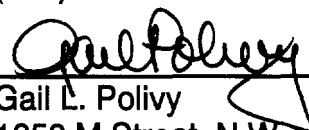
As USTA states (at 5), "If carriers are permitted to amortize over their individual and unique remaining lives, the expense shift for the embedded portion of assets addressed in this Petition would be implemented on a revenue neutral basis." GTE agrees, and urges the Commission to grant carriers this flexibility along with the \$2000 increase in the expense limit.

Respectfully submitted,

GTE Service Corporation and its affiliated  
domestic telephone operating companies

Richard McKenna, HQE03J36  
GTE Service Corporation  
P.O. Box 152092  
Irving, TX 75015-2092  
(214) 718-6362 .

By

  
\_\_\_\_\_  
Gail L. Polivy  
1850 M Street, N.W.  
Suite 1200  
Washington, DC 20036  
(202) 463-5214

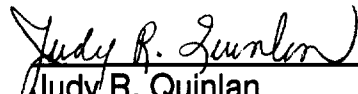
July 24, 1995

Their Attorneys

### **Certificate of Service**

I, Judy R. Quinlan, hereby certify that copies of the foregoing "GTE's Comments in Support of USTA" have been mailed by first class United States mail, postage prepaid, on the 24th day of July, 1995 to the party listed below:

Mary McDermott  
United States Telephone Association  
1401 H Street, NW  
Suite 600  
Washington, DC 20005

  
\_\_\_\_\_  
Judy R. Quinlan